



State of California
Employment Training Panel

Arnold Schwarzenegger, Governor

August 11, 2008

Ed Schaniel
Director, Employee Involvement
The Boeing Company, Airlift & Tanker Programs
2401 E. Wardlow MSC054-0067
Long Beach, CA 90807

Dear Mr. Schaniel:

Enclosed is our final audit report relative to the Employment Training Panel Agreement No. ET03-0286 for the period April 7, 2003 through April 6, 2005.

Also enclosed is a demand letter for payment of costs disallowed in the audit report. Payment is due upon receipt of this letter. If you wish to appeal the audit findings, you must follow the procedure specified in Attachment A to the audit report.

We appreciate the courtesy and cooperation extended to our auditor during the audit. If you have any questions, please contact Charles Rufo, Audit Director, at (916) 327-5439.

Sincerely,

Original signed by:

Charles Rufo
Audit Director

Enclosures

cc: Mukesh Luhar, Senior Manager, The Boeing Company
Audrey Holmes, Vice President, Labor Employment and Training Corporation
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**THE BOEING COMPANY,
AIRLIFT & TANKER PROGRAMS**

Agreement No. ET03-0286

Final Audit Report

For The Period

April 7, 2003 through April 6, 2005

Report Published August 11, 2008

Charles Rufo, Audit Director
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Employment Training Panel
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AUDITOR'S REPORT

Summary

We performed an audit of The Boeing Company, Airlift & Tanker Program's compliance with Agreement No. ET03-0286, for the period April 7, 2003 through April 6, 2005. Our audit pertained to training costs claimed by the Contractor under this Agreement. Our audit was performed during the period October 23, 2006 through October 25, 2006.

The Employment Training Panel (ETP) reimbursed the Contractor a total of \$563,397.25. Our audit supported \$555,259.25 is allowable. The balance of \$8,138 is disallowed and must be returned to ETP. The disallowed costs resulted from 26 trainees who did not who did not complete sufficient class/lab training hours.

AUDITOR'S REPORT (continued)

Background

In 1997, The Boeing Company (Boeing), one of the world's major aerospace firms, merged with McDonnell Douglas Corporation and took over use of a production facility in Long Beach that employs 8,500 Californians. The facility houses Boeing's Airlift & Tanker Programs, which designs, manufactures and supports the C-17 aircraft for the military.

This Agreement was the sixth training project between ETP and Boeing. The training project was part of the company's efforts to develop employees who could direct and manage work to improve quality and reduce costs. Boeing wanted its employees to work on problems and lead projects to implement solutions. The company was also in the process of merging the jobs of blue-collar, technical and administrative workers. Frontline workers were to be trained to not only perform the technical aspects of their jobs, but also be accountable for planning and managing their own work. Therefore, this Agreement provided for training in three Continuous Improvement initiatives – Teambuilding, Project Management, and "Creating Champions of Change."

This Agreement allowed Boeing to receive a maximum reimbursement of \$2,366,000 for retraining 4,550 employees. During the Agreement term, the Contractor placed 929 trainees and was reimbursed \$563,397.25 by ETP.

Objectives, Scope, and Methodology

We performed our audit in accordance with *Government Auditing Standards*, promulgated by the United States General Accounting Office. We did not audit the financial statements of The Boeing Company. Our audit scope was limited to planning and performing audit procedures to obtain reasonable assurance that The Boeing Company complied with the terms of the Agreement and the applicable provisions of the California Unemployment Insurance Code.

Accordingly, we reviewed, tested, and analyzed the Contractor's documentation supporting training cost reimbursements. Our audit scope included, but was not limited to, conducting compliance tests to determine whether:

- Trainees were eligible to receive ETP training.
- Trainees received the minimum training hours specified in the Agreement.
- Trainees were employed continuously full-time for 90 consecutive days after completing training, and the 90-day

AUDITOR'S REPORT (continued)

retention period was completed within the Agreement term.

- Trainees were employed in the occupation for which they were trained and earned the minimum wage required at the end of the 90-day retention period.
- The Contractor's cash receipts agree with ETP cash disbursement records.

As part of our audit, we reviewed and obtained an understanding of the Contractor's management controls as required by *Government Auditing Standards*. The purpose of our review was to determine the nature, timing, and extent of our audit tests of training costs claimed. Our review was limited to the Contractor's procedures for documenting training hours provided and ensuring compliance with all Agreement terms, because it would have been inefficient to evaluate the effectiveness of management controls as a whole.

Conclusion	As summarized in Schedule 1, the Summary of Audit Results, and discussed more fully in the Findings and Recommendations Section of our report, our audit supported \$555,259.25 of the \$563,397.25 paid to the Contractor under this Agreement is allowable. The balance of \$8,138 is disallowed and must be returned to ETP.
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Views of Responsible Officials	The audit findings were discussed with Mukesh Luhar, Senior Manager, at an exit conference held on October 25, 2006 and via e-mail on May 21, 2007. Mr. Luhar agreed to bypass the draft report and proceed to the final audit report.
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The issuance of your final audit report had been delayed by the audit unit. Therefore, ETP waived the accrual of interest for the disallowed costs beginning November 29, 2006, through the issue date of this final audit report. The interest waiver (adjustment) was \$1,273.05, which was deducted from the total accrued interest.

Audit Appeal Rights	If you wish to appeal the audit findings, it must be filed in writing with the Panel's Executive Director within 30 days of receipt of this audit report. The proper appeal procedure is specified in Title 22, California Code of Regulations, Section 4450 (attached).
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AUDITOR'S REPORT (continued)

Records

Please note the ETP Agreement, Paragraph 5, requires you to assure ETP or its representative has the right, "...to examine, reproduce, monitor and audit accounting source payroll documents, and all other records, books, papers, documents or other evidence directly related to the performance of this Agreement by the Contractor... This right will terminate no sooner than four (4) years from the date of termination of the Agreement or three (3) years from the date of the last payment from ETP to the Contractor, or the date of resolution of appeals, audits, or litigation, whichever is later."

Charles Rufo
Audit Director

Fieldwork Completion Date: October 25, 2006

This report is a matter of public record and its distribution is not limited. The report is intended for use in conjunction with the administration of ETP Agreement No. ET03-0286 and should not be used for any other purpose.

SCHEDULE 1 – Summary of Audit Results

**THE BOEING COMPANY,
AIRLIFT & TANKER PROGRAMS**

AGREEMENT NO. ET03-0286

FOR THE PERIOD

APRIL 7, 2003 THROUGH APRIL 6, 2005

	<u>Amount</u>	<u>Reference*</u>
Training Costs Paid By ETP	<u>\$ 563,397.25</u>	
Disallowed Costs:		
Insufficient Training Hours Attended	8,138	Finding No. 1
Inaccurate Reporting	<u>-</u>	Finding No. 2
Training Costs Allowed	<u><u>\$ 555,259.25</u></u>	

* See Findings and Recommendations Section.

FINDINGS AND RECOMMENDATIONS

FINDING NO. 1 – The Boeing Company, Airlift & Tanker Program’s (Boeing) training documentation did not support the total number of training hours reported for 26 Job No. 4 trainees. As a result, we disallowed a percentage of the total costs claimed for these trainees in the amount of \$8,138 [(626 disallowed hours) x (\$13 per hour)].

Insufficient
Training Hours
Attended

Title 22 California Code of Regulations (CCR), Section 4442(b) requires Contractors to maintain and make available records that clearly document all aspects of training. Classroom/laboratory training records must include the training date(s) and hours attended, training type, and the trainer and trainee’s signatures.

Paragraph 2(b) of the Agreement states that “Reimbursement for class/lab and videoconference training for trainees in job number 4 [typographical error –shown as job number 5 in Amendment No. 2] will be based on the total actual number of training hours completed by training delivery method for each trainee, up to the maximum specified in Chart 1, providing the minimum and no more than the maximum hours are met.” Exhibit A, Chart 1, page 5 of 6, required that Job No. 4 trainees complete between 24 to 200 class/lab hours.

Boeing reported class/lab training hours recorded on training rosters and/or the Boeing Learning Management System (BLMS) for each individual trainee. ETP reimbursed Boeing for each trainee in amounts equal to the number of hours reported. However, Boeing’s training records did not fully support the total class/lab hours invoiced. Trainee Nos. 1 through 26, excluding Trainee No. 19, had training reported at 12 hours per day but were not actually trained or paid more than 8 hours per day. Trainee No. 17 had a missing training roster and BLMS electronic record. The table below shows the trainee job number, reported class/lab hours, audited class/lab hours, and disallowed class/lab hours.

Trainee No.	Job No.	Reported Class/Lab Hours	Audited Class/Lab Hours	Disallowed Class/Lab Hours
1	4	183	151	32
2	4	200	160	40
3	4	102	82	20
4	4	53	45	8
5	4	160	120	40
6	4	181	141	40

FINDINGS AND RECOMMENDATIONS (continued)

Trainee No.	Job No.	Reported Class/Lab Hours	Audited Class/Lab Hours	Disallowed Class/Lab Hours
7	4	191	153	38
8	4	132.5	112.5	20
9	4	109	89	20
10	4	137	117	20
11	4	123	103	20
12	4	121.5	101.5	20
13	4	110	90	20
14	4	105	85	20
15	4	143	123	20
16	4	176	136	40
17	4	48	40	8
18	4	144	124	20
19	4	122	102	20
20	4	105	85	20
21	4	100	80	20
22	4	119	99	20
23	4	106	86	20
24	4	176	136	40
25	4	116	96	20
26	4	100	80	20
Total Disallowed Class/Lab Hours				626

Recommendation Boeing must return \$8,138 to ETP. In the future, the Contractor should ensure that training records support the reported number of training hours as required by the Agreement prior to claiming reimbursement from ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 2 – Trainee hourly wage rates reported by Boeing on invoices submitted to ETP were inaccurate. As a result, the Contractor did not comply with Agreement reporting requirements.

Inaccurate
Reporting

Paragraph 2(d) of the Agreement states, “Contractor shall submit invoices and necessary statistical data to ETP in form and manner prescribed by ETP.” Accurate, complete trainee wage rate information is required to verify compliance with Exhibit A, page 4, paragraph VII-A of the Agreement. This section states, “Each trainee must be employed full-time... for a period of at least ninety (90) consecutive days immediately following the completion of training... Wages at the end of the 90-day retention period shall be equal to or greater than the wages listed in [the Agreement].”

Wage information obtained from Boeing shows that trainee hourly wage rates reported were incorrect for 12 out of the 56 trainees (21 percent) randomly tested. Actual hourly wage rates differed from reported wage rates by more than 5 percent for these trainees.

Recommendation In the future, the Contractor should ensure all trainee data reported to ETP is accurate and complete. Inaccurate or incomplete data may result in repayment of unearned funds, plus applicable interest, to ETP.

ATTACHMENT A - Appeal Process

4450. Appeal Process.

- (a) An interested person may appeal any final adverse decision made on behalf of the Panel where said decision is communicated in writing. Appeals must be submitted in writing to the Executive Director at the Employment Training Panel in Sacramento.
- (b) There are two levels of appeal before the Panel. The first level must be exhausted before proceeding to the second.
 - (1) The first level of appeal is to the Executive Director, and must be submitted within 30 days of receipt of the final adverse decision. This appeal will not be accepted by the Executive Director unless it includes a statement setting forth the issues and facts in dispute. Any documents or other writings that support the appeal should be forwarded with this statement. The Executive Director will issue a written determination within 60 days of receiving said appeal.
 - (2) The second level of appeal is to the Panel, and must be submitted within 10 days of receipt of the Executive Director's determination. This appeal should include a statement setting forth the appellant's argument as to why that determination should be reversed by the Panel, and forwarding any supporting documents or other writings that were not provided at the first level of appeal to the Executive Director. If the Panel accepts the appeal and chooses to conduct a hearing, it may accept sworn witness testimony on the record.
 - (A) The Panel must take one of the following actions within 45 days of receipt of a second-level appeal:
 - (1) Refuse to hear the matter, giving the appellant written reasons for the denial; or
 - (2) Conduct a hearing on a regularly-scheduled meeting date; or
 - (3) Delegate the authority to conduct a hearing to a subcommittee of one or more Panel members, or to an Administrative Law Judge with the Office of Administrative Hearings.
 - (B) The Panel or its designee may take action to adopt any of the administrative adjudication provisions of the Administrative Procedures Act at Government Code Section 11370 *et seq.*, for the purpose of formulating and issuing its decision. Said action may take place at the hearing, or in preliminary proceedings.
 - (C) Upon completion of the hearing, the record will be closed and the Panel will issue a final ruling. The ruling may be based on a recommendation from the hearing designee. The ruling shall be issued in a writing served simultaneously on the appellant and ETP, within 60 days of the record closure.
- (c) The time limits specified above may be adjusted or extended by the Executive Director or the Panel Chairman for good cause, pertinent to the level of appeal.
- (d) Following receipt of the Panel's ruling, the appellant may petition for judicial review in Superior Court pursuant to Code of Civil Procedure Section 1094.5. This petition must be filed within 60 days from receipt of the Panel's ruling.

Authority: Section 10205(m), Unemployment Insurance Code; Section 11410.40, Government Code.

Reference: Sections 10205(k), 10207, Unemployment Insurance Code.

Effective: April 15, 1995

Amended: December 30, 2006